

UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF CALIFORNIA

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CYTOSPORT, INC.

Plaintiff,

v.

VITAL PHARMACEUTICALS, INC.,

Defendant.

NO. CIV. S-08-2632 FCD/GGH

MEMORANDUM AND ORDER

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This matter is before the court on defendant Vital Pharmaceuticals, Inc.'s ("VPX") motion for reconsideration of the magistrate judge's March 2, 2010 order, denying VPX's amended motion to modify protective order. Fed. R. Civ. P. 72(a); E.D Cal. L.R. 303(c). VPX sought modification of the parties' Stipulated Protective Order (Docket #43) (the "Protective Order") on the ground that it prevented VPX's in-house counsel from effectively functioning as lead counsel in this action by denying counsel access to materials designated "Attorneys' Eyes Only" ("AEO"). The magistrate judge denied VPX's motion, finding that VPX failed to demonstrate that it would suffer actual prejudice

1 if the Protective Order remained in place, and thus, it failed to  
2 meet its initial burden of demonstrating good cause to modify the  
3 order. (Docket #132.) The magistrate judge further found that  
4 modifying the Protective Order would result in both an increased  
5 risk of inadvertent disclosure of trade secret material as well  
6 as grave consequences to plaintiff CytoSport, Inc. ("CS")  
7 resulting from any such disclosure.<sup>1</sup> (Id.)

8 **BACKGROUND**

9 CS brought this action on November 14, 2008 against VPX for  
10 trademark and trade dress infringement, dilution, unfair  
11 competition and false advertising in regard to CS's ready to  
12 drink protein beverage, Muscle Milk, claiming VPX copied it in  
13 the form of VPX's product, Muscle Power. On March 30, 2009, the  
14 parties entered into the Protective Order, which provided in part  
15 that documents designated AEO would be available to "Qualified  
16 Persons," from which category in-house counsel were specifically  
17 excluded. (Docket #43 at ¶ 10, n. 2.)

18 Subsequently, VPX replaced its general counsel and  
19 established a new in-house legal department, consisting of three  
20 lawyers and support staff. VPX selected its new general counsel  
21 and in-house legal department to act as lead litigation counsel  
22 for all VPX litigation across the country, including this action.  
23 In making this selection, VPX replaced its former lead counsel in  
24 this case, Perkins Coie, and retained new outside counsel to act  
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27 <sup>1</sup> Because the court finds that oral argument will not be  
28 of material assistance, it orders this matter submitted on the  
briefs. E.D. Cal. L.R. 230(g).

1 as local counsel.<sup>2</sup> VPX asserts that as its new counsel came up  
2 to speed on the case and began to prepare for depositions, it  
3 became clear that VPX's in-house counsel could not effectively  
4 function as lead counsel without access to AEO material. VPX  
5 sought CS's agreement to modify the Protective Order, but CS  
6 refused, claiming the Protective Order was necessary to protect  
7 commercially sensitive information from disclosure to rival  
8 companies. CS emphasized that the Protective Order was entered  
9 following this court's grant of a preliminary injunction  
10 preventing VPX from manufacturing, marketing or selling its  
11 Muscle Power product, which was affirmed by the Ninth Circuit, as  
12 well as discovery, and that it was carefully negotiated between  
13 the parties.

14 Because CS would not agree to modification of the order, VPX  
15 filed the underlying motion to modify the protective order.<sup>3</sup>

16 **STANDARD**

17 The standard of review on a motion for reconsideration of a  
18 magistrate judge's ruling on a nondispositive matter is "clearly  
19 erroneous or contrary to law." 28 U.S.C. § 636(b)(1)(A); E.D.  
20 Cal. L.R. 303(f). Under that standard, the court must accept the  
21 magistrate judge's decision unless it has a "definite and firm  
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23 <sup>2</sup> Said counsel is located in California but in Los  
24 Angeles. VPX's in-house legal department is located in Florida.

25 <sup>3</sup> In opposing the instant motion, CS offers a sealed  
26 Declaration of Samuel Straight, attaching six exhibits that CS  
27 brought to the hearing on the underlying motion. CS offers the  
28 exhibits as proof that it will suffer grave consequences from  
inadvertent disclosure. The exhibits were rejected and not  
considered by the magistrate judge. Accordingly, they do not  
form the basis for his order, and thus, this court has likewise  
not considered the declaration or attached exhibits.

conviction that a mistake has been committed." Concrete Pipe & Prods. of Cal., Inc. v. Const. Laborers Pension Trust for So. Cal., 508 U.S. 602, 622 (1993); Husain v. Olympic Airways, 316 F.3d 829, 835 (9th Cir. 2002).

# **ANALYSIS**

VPX makes a number of arguments in support of its motion, many of which are overlapping and basically raise the same point. Its essential arguments can be summarized as follows: the magistrate judge erred in (1) misapplying the governing case law addressing modification of protective orders; (2) finding VPX failed to show actual prejudice since continuation of the Protective Order infringes on its constitutional right to select counsel of its choosing; and (3) *assuming* an increased risk of inadvertent disclosure based merely on counsel's in-house status.

The court has reviewed the parties' papers, including their submissions on the underlying motion, and contrary to VPX's protestations, it cannot find any error in the magistrate judge's order. First, the magistrate judge applied the correct legal standard to the motion. To modify the Protective Order, VPX had to show preliminarily how the Protective Order would prejudice its case; in other words, to demonstrate the requisite "good cause" to modify the order, VPX had to demonstrate actual prejudice. Brown Bag Software v. Symantec Corp., 960 F.2d 1465, 1470 (9th Cir. 1992); Intel Corp. v. VIA Techs., Inc., 198 F.R.D. 525, 528 (N.D. Cal. 2000). If VPX established good cause, then the court balances, "the risk of inadvertent disclosure of trade secrets to [VPX], against the risk . . . that protection of . . . trade secrets impaired prosecution [of VPX's] claims." Intel

1 Corp., 198 F.R.D. at 528.

2 Here, the magistrate judge correctly found that VPX offered  
3 no evidence of actual prejudice; namely, evidence as to why its  
4 use of in-house counsel as lead counsel was critical to this  
5 case. Indeed, VPX wholly failed, and continues to fail, to  
6 adequately explain the reasons why it switched to in-house  
7 counsel. Courts have found actual prejudice where a party has  
8 shown that the use of in-house counsel was necessary due to the  
9 specialized expertise of the counsel, required in order to  
10 maintain a company's financial stability or essential to its  
11 prosecution or defense of an action due to outside counsel's  
12 incompetency or lack of sufficient time to present the client's  
13 best case.<sup>4</sup> See Intel, 198 F.R.D. at 529-30; Brown Bag, 960 F.2d  
14 at 1470-72. That VPX must rely on competent *outside* counsel does  
15 not create an "undue and unnecessary burden," sufficient to  
16 demonstrate actual prejudice, as recognized in Intel. Intel, 198  
17 F.R.D. at 529-30. As the magistrate judge emphasized, it is not  
18 enough that the Protective Order merely increases the difficulty  
19 of managing the litigation; rather, VPX must show it "actually  
20 prejudice[s] [its] presentation of [its] case." Id. at 528

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22 <sup>4</sup> Contrary to VPX's contentions, the magistrate judge did  
23 not require VPX to divulge attorney/client communications when he  
24 inquired as to the reasons why VPX chose to use in-house counsel  
25 as its lead counsel. The magistrate judge's question was a  
26 proper inquiry in order to ascertain whether there was any actual  
27 prejudice, and if VPX was concerned about the disclosure of any  
28 protected attorney/client communications, it could have submitted  
its reasons *in camera* to the court. Instead, during the hearing  
on the motion, VPX's counsel simply stated that he was not  
"privy" to the reasons why the choice was made. VPX again does  
not offer any explanation on the instant motion, except to  
intimate, in conclusory fashion, that the choice was made for  
cost savings reasons. This bald assertion is not evidence of  
actual prejudice.

1 (finding no prejudice where Intel could not show its ability to  
2 litigate through outside counsel was impaired). Indeed, it is  
3 noteworthy that though VPX terminated its former counsel, Perkins  
4 Coie, it still retains outside counsel, who it describes as its  
5 "local counsel." Presumably, that counsel can review any AEO  
6 material subject to the Protective Order.

7 Notwithstanding these governing standards, VPX contends that  
8 the magistrate judge's order is in error because it ultimately  
9 prevents VPX from utilizing "counsel of its choice"--a right VPX  
10 asserts is constitutionally protected by the due process clause  
11 of the Fifth Amendment. A civil litigant's right to counsel of  
12 its choice, however, is not absolute, and the right can be  
13 overridden, as even VPX acknowledges, for "compelling" reasons.  
14 See In re Bell South Corp., 334 F.3d 941, 955-56 (11th Cir. 2003)  
15 (relied on by both VPX and the magistrate judge). Here, the  
16 magistrate judge properly found that "the protection of trade  
17 secrets, which is deemed important enough to allow sealing and  
18 other protections in a public court, is important enough to  
19 restrict 'counsel of one's choice' from viewing the secrets in  
20 appropriate situations." (Docket #132 at 6:24-26.)

21 Because VPX failed to meet its initial burden of  
22 demonstrating good cause for modifying the Protective Order, the  
23 magistrate judge's additional findings regarding the increased  
24 risk of disclosure and the danger of harm to CS are essentially  
25 dicta. See Intel, 198 F.R.D. at 528 (stating that the moving  
26 party must first demonstrate that it has good cause for modifying  
27 the protective order). As such, any error in these findings is  
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1 irrelevant for purposes of the instant motion.<sup>5</sup> This court finds  
2 that the magistrate judge properly denied VPX's motion based on  
3 its lack of a showing of actual prejudice. The discussion  
4 properly ends there; no further balancing of interests is  
5 necessary.

6 However, because the magistrate judge balanced the relevant  
7 interests, the undersigned has also reviewed these findings and  
8 concludes that they are not clearly erroneous or contrary to law.  
9 The magistrate judge did not err in finding an increased risk of  
10 inadvertent disclosure. Significantly, here, VPX has only three  
11 attorneys in its in-house legal department, and it is a  
12 relatively small company; VPX conceded that its in-house counsel  
13 are directly reportable to the company's CEO, Jack Owoc, who is  
14 responsible for all competitive decisionmaking. Thus, the  
15 magistrate judge correctly noted that the risk and potential  
16 danger of inadvertent disclosure is "compounded" by these facts.  
17 (Docket # 132 at 7:1-2.); see MMCA Group, Ltd. v. Hewlett-  
18 Packard Co., No. C-06-7067 MMC (EMC), 2009 WL 1874026, \*2 (N.D.  
19 Cal. June 26, 2009) (recognizing the risk of inadvertent  
20 disclosure was "compounded" by the fact that in-house counsel  
21 worked for a small company and was the only in-house attorney  
22 tasked with providing legal advice to the company). Moreover,  
23 the magistrate judge did not, as VPX contends, simply assume a  
24 likelihood of disclosure based on counsel's in-house status.

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26 <sup>5</sup> For example, VPX's argument that the magistrate judge  
27 improperly denied it an evidentiary hearing on the issue of  
28 whether there was an increased risk of disclosure of AEO material  
is inapposite. Such a hearing is unnecessary since VPX failed to  
meet its threshold burden.

1 Instead, VPX's own evidence demonstrated that its in-house  
2 counsel is involved in the competitive decisionmaking process.  
3 (See Pagano Decl.) Courts recognize that where such involvement  
4 exists, "the risk of disclosure may [well] outweigh the need for  
5 confidential information." U.S. Steel Corp. v. U.S., 730 F.2d  
6 1465, 1468 (Fed. Cir. 1984).

7 In MMCA, 2009 WL 1874026, \*1, the court held that in-house  
8 counsel's activities, including drafting and/or rendering advice  
9 on contracts between the defendant and its clients and employees,  
10 while not specifically addressing competitive issues like pricing  
11 and hiring, still "implicate[d] competitive decisionmaking."  
12 Even "input" on contracts and their enforceability involved  
13 matters of competitive decisionmaking, thus disqualifying counsel  
14 from access to AEO materials. Id. Such is also the case here,  
15 as VPX's in-house counsel describes her duties similarly to  
16 counsel in MMCA. (Docket # 132 at 4.) Finally, the magistrate  
17 judge properly considered the impracticalities of the situation.  
18 He reasonably found that in-house counsel could not be expected  
19 to "lock away" in her mind information related to this case every  
20 time she faced a company issue or had interaction with the CEO.  
21 Because this was likely not possible, counsel would be placed in  
22 an untenable position, potentially being unable to render  
23 adequate legal advice to her client. See Intel, 198 F.R.D. at  
24 531 (denying in-house counsel access to AEO material in part  
25 because it placed counsel in the "untenable position of having to  
26 refuse his employer legal advise on a host of . . . decisions  
27 lest he improperly or indirectly reveal . . . trade secrets").  
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1 No only was there a heightened risk of inadvertent  
2 disclosure, the consequences of disclosure to CS would be grave,  
3 as the magistrate judge found. In fact, VPX makes no meaningful  
4 arguments to the contrary. Both companies are in direct  
5 competition through the sale of almost identical products in the  
6 same manner to a similar audience. As evidenced by this court's  
7 grant of a preliminary injunction against VPX, the potential harm  
8 to CS by disclosure of its trade secrets is significant and  
9 cannot be ignored. CS's trade secrets could be used by its  
10 competitors to copy its highly successful products, compete for  
11 customers, or otherwise interfere with CS's business plan and  
12 thereby, allow competitors to gain an advantage in the  
13 marketplace.

14 **CONCLUSION**

15 For the foregoing reasons, VPX's motion for reconsideration  
16 is DENIED. The court cannot find that the magistrate judge's  
17 March 2, 2010 order denying VPX's motion for modification of the  
18 Protective Order is clearly erroneous or contrary to law. The  
19 magistrate judge correctly found that VPX failed to demonstrate  
20 good cause to modify the order as it offered no evidence of any  
21 actual prejudice caused by continuation of the order, and even if  
22 such prejudice existed, the balance of interests weighed in favor  
23 of maintenance of the order as originally negotiated. The risk  
24 of inadvertent disclosure was too high considering the nature of  
25 the VPX's in-house legal department and in-house counsel's  
26 specific role in the company and the consequences are dire to CS


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1 if disclosure of its trade secrets occurs.<sup>6</sup>

2 IT IS SO ORDERED.

3 DATED: May 10, 2010

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6 FRANK C. DAMRELL, JR.  
UNITED STATES DISTRICT JUDGE

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26 <sup>6</sup> In opposing the motion, CS complains that VPX refuses  
27 to allow CS to take VPX's Rule 30(b)(6) deposition and asks that  
28 this court consider extending the discovery period to permit CS  
additional time to take this deposition. Consideration of this  
issue is not appropriate on the instant motion; if CS wishes to  
extend the discovery deadline, it should file the appropriate  
motion under Rule 16.